

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

INDECK KEYSTONE ENERGY, LLC, a)	
Delaware limited liability company,)	
)	
PLAINTIFF)	
)	
v.)	CIVIL ACTION
)	No. 04-CV-325E
VICTORY ENERGY OPERATIONS, LLC, a)	
Delaware limited liability company)	
)	
DEFENDANT)	

EXPERT REPORT OF SCOTT A. STRINGER
March 26, 2007

I have been retained by Mr. Christopher T. Sheean attorney for Defendant Victory Energy Operations, LLC (VEO) to determine the gross profit earned by VEO on certain boilers identified in the above-styled litigation and to review and critique the report of plaintiff's expert Mr. William F. Liebel.

This report summarizes my opinions and conclusions to date. It is my understanding that discovery and depositions are still ongoing in this matter. Therefore, I reserve the right to supplement this report and update my opinions should additional information become available.

Exhibit I lists my Curriculum Vitae which indicates my experience and qualifications, as well as a list of all publications written in the last ten years and deposition and trial testimony during the last four years. UHY is being compensated at an hourly rate of \$340 for time I spend in connection with this matter and rates ranging from \$60-\$210 per hour for others who have assisted me. Our fees are not contingent upon either the outcome of the litigation or the conclusions expressed herein.

In developing my opinions in this case, I have reviewed certain documents, data, information, and testimony. The data, documents, and information I have reviewed and primarily relied upon is contained in **Exhibit II** of this report.

SUMMARY OF OPINIONS

The gross profit realized by VEO on eleven Keystone boilers and seven Voyager boilers was \$484,002 and \$1,341,540 respectively.

CASE BACKGROUND

In January of 2003, VEO and Erie Power Technologies, Inc. (EPTI) entered into an agreement whereby VEO obtained an exclusive license to manufacture and sell boilers in North America as well as to use various trademarks associated with the technology.

In September of 2004, Indeck Keystone Energy LLC (IKE) acquired all of the intellectual property of EPTI that is at issue in this litigation. IKE alleges that VEO incorporated the Keystone trademark, trade secrets, and other intellectual property in the production and sale of boilers that fell outside of the scope of the original license agreement with EPTI. Count VI of the Complaint requests an order for the accounting of all VEO sales and profits on these boilers.¹ IKE further alleges that VEO utilized the Keystone trade secrets in the manufacturing and sale of its new line of boilers, the Voyager. IKE seeks to recover the profits VEO has earned on the sale of its Voyager line of boilers.

ASSIGNMENT

My first assignment in this case was to compute the sales and resulting profits on the Keystone boilers as well as the Voyager boilers completed and shipped as of February 17, 2007. My computations were made based upon generally accepted accounting principles known as GAAP. Because this litigation is specific to certain boilers and not the entire company operations, I deemed the term "profits" to mean "gross profit" as defined in GAAP. In addition, I was asked to review and provide a critique of the report of plaintiff's expert Mr. William Liebel.

Calculation of Gross Profit

As shown on **Exhibits III and VII**, I calculated the gross profit for the Keystone and Voyager boilers. Gross profit is defined under GAAP as net sales minus cost of goods sold. Cost of goods sold for a manufacturing company is defined as all costs to prepare a product for sale including raw material, direct labor, and overhead associated with the manufacturing process.²

Because of the unique nature and high dollar amount of the products manufactured by VEO, the accounting practice that is used is called job costing. Job costing is a recognized accounting methodology that treats each product as a separate reporting unit called a "job." These jobs can then be analyzed individually to determine the extent of costs and resulting gross profit earned by each job.

The first step in calculating gross profit on the selected jobs was to determine the amount charged by VEO to its customers. I obtained a listing of the detailed billings by job.³

¹ Complaint dated November 8, 2004

² *Intermediate Accounting*, Twelfth Edition, Jay M. Smith, Southwestern Publishing Co., 1995

³ *Job Billing History Report*

Once I determined the revenues for each job, the next step was to determine the cost of goods sold. The components of costs of goods sold fall into four categories: raw materials, direct labor, other costs, and manufacturing overhead.

Raw materials are those tangible products purchased by VEO that will go into building the boilers. From the detailed listing by job and by internal expense account prepared by VEO, I reviewed and recalculated the raw material costs.⁴ In order to determine the validity of the listing, I selected one job and traced the charges for raw materials directly to the purchase order noting no material discrepancy.

Direct labor costs are the wages paid for employees and outside contractors who work in the manufacturing process. These costs were accounted for by job and listed in the various reports noted as Cost Code Summary Report and Cost Code Summary Report by Individual. Temporary personnel costs by job were accumulated separately and summarized on an Excel spreadsheet prepared by VEO.⁵

Other allocated costs consist primarily of miscellaneous employee expenses, freight, commissions/royalty payments, and engineering charges which can be specifically associated with a job. These costs are identified by VEO in the Job Transaction Detail Report.

Manufacturing overhead represents manufacturing costs that cannot be directly associated with a job. Under GAAP, manufacturing costs are allocated to jobs using a reasonable and rational allocation method. The most common method for allocating overhead is by labor hours. Thus, the method I used allocates overhead based upon the ratio of direct labor hours used by job to the total direct labor hours incurred for the period.

I analyzed the manufacturing costs incurred by VEO by reviewing the income statements with account detail for 2005 and the first six months of 2006.⁶ I did not analyze 2004 costs because only one boiler was in production during this period.

I then discussed each of these costs with VEO controller Matt Robinson to determine if these costs benefited manufacturing, and if so, to what degree. Based upon my discussions and as shown on **Exhibit VI**, I determined that the total manufacturing overhead costs to be applied for 2005 and the first six months of 2006 were \$4,395,608 and \$3,774,026, respectively.

As illustrated on **Exhibit V**, the total manufacturing labor hours in 2005 and for the first six months of 2006 were 115,739 and 94,708, respectively. Dividing the manufacturing overhead cost by the total manufacturing labor hours resulted in an overhead allocation rate of \$37.98 per hour for 2005 and \$39.85 for 2006. These rates were then multiplied

⁴ *Job Transaction Detail Reports*

⁵ *Cost of Goods Sold Manufactured for Selected Jobs* VEO15233 to 15235

⁶ VEO 15211 - 15213, 15201 - 15203, 15206 - 15208

by the actual hours incurred during the manufacturing process for each job for the appropriate period.

Considering raw materials, direct labor, other costs, and manufacturing overhead, the total cost of goods sold for Keystone and Voyager boilers was \$7,802,226 and \$6,127,033, respectively. As well, there were additional charges on two Voyager jobs that had not been classified in cost of goods sold. Those charges are shown as a separate line item titled "Back Charges."

When these costs are deducted from Revenue, this results in Gross Profit for the Keystone and Voyager boilers of **\$484,002** and **\$1,341,540**, respectively.

Critique of Report of William Liebel

I was also asked to review the report of plaintiff's expert Mr. William Liebel. Based upon my review, I believe that there are significant errors in both methodologies and conclusions. The following summarizes my opinions regarding Mr. Liebel's report:

- Based on his curriculum vitae, Mr. Liebel is not a certified public accountant and has no background in performing a detailed job cost accounting analysis.
- There is no indication in the report that Mr. Liebel has attempted to utilize GAAP.
- Mr. Liebel makes several complaints about inadequate documentation from VEO, but never articulates the information he needs, or its impact on his conclusions.
- Mr. Liebel claims that a budget estimate for each of the Keystone projects is needed to calculate profit or loss.
- Although he claims to have inadequate documentation, Mr. Liebel renders calculations on VEOs profits for both the Keystone and Voyager boilers.
- Mr. Liebel relies upon the "Boiler Price per Royalty" for the amount VEO received on the Keystone boilers rather than the actual billings.
- Mr. Liebel's numbers for material cost are grossly understated for every Keystone project.
- On his "Summary of Profit/Loss of Contracts Reviewed", Mr. Liebel makes three math errors that result in his calculation of profits being overstated by \$175,000 to \$200,000.
- Mr. Liebel uses different methodologies to compute profits for Keystone and Voyager.

- Mr. Liebel tries to calculate the profit on the five Voyager jobs by using unsupported profit margins.

Based upon my analysis and findings as previously described, I believe that Mr. Liebel's report cannot be relied upon to calculate gross profit to any reasonable degree of certainty.

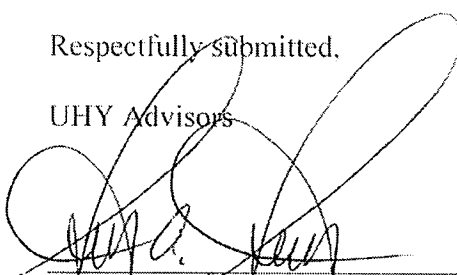
CONCLUSION

Based upon my analysis of the evidence and the application of generally accepted accounting principles, the gross profit earned by VEO on the Keystone and Voyager boilers was \$484,002 and \$1,341,540, respectively.

* * * * *

Respectfully submitted,

UHY Advisors



Scott A. Stringer
Managing Director

EXHIBIT I

**CURRICULUM VITAE
SCOTT A. STRINGER
03/26/2007**

EMPLOYMENT

Current: (2001 – Present)
UHY Advisors
15 Sunnen Drive, Suite 100
St. Louis, Missouri 63143
Managing Director
Business Consulting Department Head

History: (1997 – 2001)
Sabino Stringer & Associates LLC
St. Louis, Missouri
Member

(1991 – 1997)
Pritchard, Osborne, LLC
Clayton, Missouri
Member

(1992 - 1993)
(2006 – present)
Maryville University
Chesterfield, Missouri
Instructor of Accounting
(Concurrent with Pritchard Osborne and UHY)

(1988 - 1991)
Grant Thornton
St. Louis, Missouri
Senior Consultant

(1988 – 1989)
Southern Illinois University
Edwardsville, Illinois
Adjunct Instructor of Accounting
(Concurrent with Grant Thornton)

(1987 - 1988)
Coin Acceptors, Inc.
Clayton, Missouri
Manager of Financial Reporting

(1984 - 1987)
KPMG Peat Marwick LLP
St. Louis, Missouri
Senior Accountant

(1982 - 1984)
Pet, Incorporated
St. Louis, Missouri
Cost Accountant

CERTIFICATIONS

Certified Public Accountant
Certified Valuation Analyst

EDUCATION

Graduate: St. Louis University, St. Louis, Missouri
Master in Business Administration -
Finance

Undergraduate: Southern Illinois University,
Edwardsville, Illinois
Bachelor of Science in Accountancy

Other: Specialized Training in:

Business Valuation
Litigation Support
Fraud and Forensic Examinations

TESTIMONY OVER LAST FOUR YEARS

2007 – *Anne Wheatley v Moe's
Southwest Grill, LLC, et al.*, Business
valuation in shareholder dispute, US
District Court, Northern District of
Georgia, Atlanta Division (deposition)

2007 – *Bridget Schroepfer, et al., v State Industries, Inc., et al.*, Rebuttal of damages, US District Court, Eastern District of Missouri, Eastern Division (deposition)

2006 – *Rhett Rance and Alice Vila Smith et al., v Commissioner of Internal Revenue*, Business Valuation, US Tax Court, Phoenix Arizona (trial)

2006 – *United States v Scott F. Creasia*, Propriety of business structure, US District Court, Tucson Arizona (trial)

2006 – *Jeanne Pribyl et. al., v Mark J. Degel et al.*, adherence to accounting requirements by trustee, St. Louis County, Missouri (deposition)

2006 – *Richard Brock, et al., v Myron W. Haith, et al.*, Rebuttal of damages, St. Louis County, Missouri (deposition)

2005 – *Cosman v Cosman*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (deposition)

2005 – *Hewlett Packard Development Company, L.P. et al v Midwest Information Technology Group, Inc. et al.*, Economic damages, US District Court, Central District of Illinois, Springfield Division (deposition)

2005 – *Computers Plus Inc. v Evers & Company*, Accounting standards required for a certified audit, Cole County, Missouri (deposition)

2005 – *Solavie v TricorBraun*, Lost Profits rebuttal, St. Louis Missouri (AAA arbitration)

2005 – *Jeffrey M. Lowe v. American Standard Inc.* Economic damages, US District Court, Eastern District of Missouri, Eastern Division (trial)

2004 – *DeVecchio v DeVecchio* – Projection of net income, St. Louis County, Missouri (trial)

2004 – *United States v Keith E. Anderson et al*, Propriety of business structure, US District Court, Western District of Washington at Seattle (trial)

2004 – *Cosman v Cosman*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (deposition)

2004 – *Game Face Sports International inc., v Reuben O. Charles et al.*, Rebuttal of Damages, City of St. Louis, State of Missouri (deposition)

2004 – *Traffic Control v Able Industries*, Calculation of amounts owed under purchase agreement, rebuttal of damage calculation, St. Louis Missouri (AAA deposition)

2004 – *Mehard v. Mehard*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (deposition and trial)

2004 – *Chipongian v. Edward Jones* Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2004 – *Jeffrey M. Lowe v. American Standard Inc.* Economic damages, US District Court, Eastern District of Missouri, Eastern Division (deposition)

2003 – *Brooks v. Morgan Stanley Dean Witter* Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 – *Clement v. Burns, Gustus & Co.*, Schedules of Trading Activity, St. Louis County, MO (deposition and trial)

2003 – *Scharff v. A.G. Edwards & Sons, Inc.*, Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 – *Moore v. Moore*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (deposition)

2003 – *Bender v. Morgan Stanley Dean Witter Inc.*, Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 – *McLaughlin v. A.G. Edwards & Sons, Inc.*, Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 - *Muenz v. Muenz*, Calculation of expected income on investments, Marital Dissolution, St. Louis County, Missouri (trial)

2003 – *Wash Solutions, Inc et al. v. PDQ Manufacturing, Inc., et al.*, Lost Profits calculation, US District Court, Eastern District of Missouri, Eastern Division (trial)

2003 – *Ehrler v. Morgan Keegan*, Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 – *Millner v. Millner*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (trial)

2003 – *Jody DeBold and Tri-River Trading v. Jersey County Grain et al*,
Compilation of trading activity records,
rebuttal of damage calculation, Circuit
Court for the City of St. Louis, Twenty-
Second Judicial Court, State of Missouri
(deposition)

2003 – *Wang Tong v. First Securities*,
Schedules of Trading Activity, St. Louis,
MO (NASD arbitration hearing)

PUBLICATIONS AND PRESENTATIONS OVER LAST TEN YEARS

"Defending Lost Profits Claims",
presented at the 2007 Illinois Defense
Counsel Spring Seminar, March 9, 2007

"Managing Your Business For Success",
presented at the Paint and Decorating
Retailers Association conference,
Phoenix AZ, March 18, 2005

"Income – What is it and Where is it?"
presented at the Domestic Relations
Seminar 2004, St. Louis County Bar
Association, October 15, 2004

PROFESSIONAL ORGANIZATIONS

American Institute of CPAs, 1987-
Present

Missouri Society of CPAs, 1985 -
Present

National Association of Certified
Valuation Analysts, 1996 – Present

Association of Certified Fraud
Examiners, 2002- Present

SIGNIFICANT CIVIC POSITIONS

National Children's Cancer Society,
Chairman, Vice Chairman, Member of
the Board, Audit Committee Chairman
1993 – present

Southern Illinois University at
Edwardsville, School of Business,
Department of Accounting – Advisory
Board Member
2005 - present

Legal Advocates for Abused Women
Board Member
2006-present

EXHIBIT II

INFORMATION REVIEWED AND RELIED UPON

1. Various Job Reports, Purchase Orders and other schedules for certain Keystone Boilers. Bates stamped as VEO#9890-9930; VEO#10467-13736; VEO#14072-14437; VEO#14650-14816
2. Various Job Reports, Purchase Orders and other schedules for certain Voyager Boilers. Bates stamped as VEO#15996-16691; VEO#16707-17522
3. Cost Code Summary reports, Bates stamped as VEO#14817-14855; VEO#14880-14890
4. Various Victory Energy financial reports and miscellaneous correspondence. Bates stamped as VEO#14856-14879; VEO#14893-14895; VEO#14956-14979; VEO#15201-15252
5. Complaint filed by IKE dated November 8, 2004
6. Defendant/Counter-Plaintiff Second Amended Counterclaim filed November 4, 2005
7. Deposition of Mark White dated February 1, 2006
8. Telephone interviews with Mark White and Matthew Robinson
9. Protective Order dated August 6, 2006
10. Victory Energy financial statements for June 30, 2006, March 31, 2006 and December 31, 2005
11. Cost Code Summary report for Voyager jobs dated March 26, 2007
12. Job Transaction Summary reports for Voyager jobs dated March 23, 2007
13. Back Charge documents on jobs 400 and 410 and received on March 23 and March 26
14. Expert report of Mr. William Liebel
15. *Intermediate Accounting*, Twelfth Edition, Jay M. Smith, Southwestern Publishing Co., 1995

EXHIBIT III

Keystone Boilers
Schedule of Gross Profit Per Job

	292	303	344	347	355	356	380	390	400	410	418	Totals
Total Contract Revenue	\$ 507,799	\$ 420,440	\$ 240,565	\$ 665,911	\$ 1,594,774	\$ 280,026	\$ 485,553	\$ 544,195	\$ 587,351	\$ 1,587,250	\$ 1,334,000	\$ 8,335,965
Less Cost of Goods Sold:												
Raw Materials	352,743	246,519	107,152	271,995	805,349	153,895	254,555	314,361	369,321	1,064,571	733,592	4,815,084
Contract Labor (Exhibit IV)	24,502	31,083	39,677	31,327	69,876	68,702	75,528	48,712	54,521	128,800	116,881	690,405
Other Costs Directly Allocated to Jobs	41,639	32,378	15,956	30,460	184,781	9,961	7,696	100,947	42,741	38,908	35,821	531,298
Manufacturing Overhead Applied (Exhibit VI)	113,210	68,451	83,518	87,625	158,943	157,600	189,799	100,827	127,772	340,438	317,075	1,765,458
Total Cost of Goods sold	572,095	398,441	246,318	421,607	1,309,759	390,159	538,598	564,847	594,355	1,572,717	1,193,369	7,802,225
Back Charges									1,561	51,146		52,707
Gross Profit	\$ (64,296)	\$ 21,999	\$ (5,652)	\$ 245,304	\$ 285,015	\$ (110,133)	\$ (73,005)	\$ (20,652)	\$ 91,405	\$ (26,613)	\$ 140,831	\$ 484,003

EXHIBIT IV

Keystone Boilers

Schedule of Direct Labor Wages per Job

	282	303	344	347	355	356	380	390	400	410	418
2004											
\$ 6,119	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
17,394	29,248	35,291	30,651	66,020	64,376	18,344	22,472	19,384	12,465	5,823	0
200	93	0	0	0	115	23,504	16,667	32,591	6,607	22,356	0
155	973					33,053	253	1,306	105,979	33,192	0
0	0	0	0	0	0	1,622	3,193	211	3,349	54,510	0
23,808	30,314	35,291	30,651	66,020	64,491	76,538	42,585	53,592	128,000	116,881	0
895	759	4,381	676	3,556	4,211	0	6,127	929	0	0	0
Direct Labor per Cost Code Summary Reports											
Temporary Service Charges											
Total Direct Labor	\$ 24,503	\$ 31,083	\$ 39,672	\$ 31,327	\$ 69,576	\$ 68,702	\$ 76,528	\$ 48,712	\$ 54,521	\$ 128,900	\$ 116,881

EXHIBIT V

Keystone Boilers
Schedule of Manufacturing Overhead Applied per Job

	2005 Actual for 2005-2006	1st Qtr. 2006	2nd Qtr. 2006	2006 Avg. Based for 2006	355	356	380	390	400	410	418
Total Overhead to be Applied (from EXHIBIT VI)	\$ 4,305,608	\$ 1,472,492	\$ 2,301,534	\$ 3,774,076							
Total Manufacturing Hours	115,738.55	47,061.33	47,046.73	94,708.06							
Overhead Rate per Hour	\$ 37.08			\$ 39.86							
2004											
Labor Hours	1,519.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overhead Applied	\$ 57,721	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2005											
Labor Hours	1,442.26	2,276.70	2,169.01	2,312.40	4,184.91	4,140.88	1,013.00	1,480.46	1,095.05	721.00	428.00
Overhead Applied	\$ 54,777	\$ 86,409	\$ 83,518	\$ 87,825	\$ 168,943	\$ 167,271	\$ 38,474	\$ 55,468	\$ 41,590	\$ 27,384	\$ 16,255
1st Qtr. 2006											
Labor Hours	12.50	6.00	0.00	0.00	0.00	8.25	1,438.90	1,030.25	2,097.16	454.61	1,259.30
Overhead Applied	\$ 498	\$ 229	\$ 0	\$ 0	\$ 0	\$ 325	\$ 58,137	\$ 41,055	\$ 83,173	\$ 18,116	\$ 50,183
2nd Qtr. 2006											
Labor Hours	5.36	44.00	0.00	0.00	0.00	0.00	2,236.21	70.00	57.50	7,216.61	2,424.23
Overhead Applied	\$ 214	\$ 1,753	\$ 0	\$ 0	\$ 0	\$ 0	\$ 99,113	\$ 797	\$ 2,090	\$ 287,582	\$ 96,606
3rd Qtr. August, 2006											
Labor Hours	0.00	0.00	0.00	0.00	0.00	0.00	102.00	88.00	8.00	184.58	3,855.28
Overhead Applied	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,065	\$ 3,507	\$ 319	\$ 7,356	\$ 154,031
Total Labor Hours	2,979.89	2,326.70	2,195.01	2,312.40	4,184.91	4,149.13	4,810.11	2,598.71	3,257.71	8,576.80	7,976.81
Total Overhead Applied	\$ 113,710	\$ 88,461	\$ 83,518	\$ 87,825	\$ 168,943	\$ 167,600	\$ 169,789	\$ 100,827	\$ 127,772	\$ 340,438	\$ 317,075

EXHIBIT VI

Keystone Boilers
Schedule of Manufacturing Overhead

Account	Method of Allocation	Allocation Percentage	Account Balances per Trial Balance			Amount to be Allocated as Overhead		
			2005	1st Qtr. 2006	2nd Qtr. 2006	2005	1st Qtr. 2006	2nd Qtr. 2006
			A	B	C			
Advertising	None							
Auto Tags	Actual Cost		\$	\$	\$	\$	\$	\$
Bad Debts	None							
Bank Service Charges	None				176			176
Certifications	Actual Cost							
Computer Expense	Facility Percentage	50%	330	0	0	343	0	0
Consumables	Actual Cost		9,954	2,517	0	4,763	2,014	0
Contract Labor	None		0	148,247	60,699	0	148,247	60,699
Dues & Subscriptions	None							
Employee Relations	Labor Percentage	80%	10,991	1,237	3,054	9,794	990	2,443
Employee Expense	Labor Percentage	80%	0	43,476	6,618	0	34,781	5,454
Fees	None							
Fines & Penalties	Actual Cost							
Insurance - Vehicles	Estimate per VEO	92%	3,450	3,996	648	3,457	3,966	648
Insurance - Boats	None		128,939	3,763	44,529	105,779	7,205	16,514
Insurance - Commercial	Facility Percentage	80%	29,746	15,266	72,719	23,797	12,213	53,175
Insurance - Workers' Comp	Labor Percentage	80%	44,034	49,873	55,936	35,227	32,698	44,750
Insurance - Disability	Labor Percentage	80%	0	0	567	0	0	534
Insurance - Health	Labor Percentage	80%	156,685	28,628	16,067	133,348	22,502	12,854
Insurance - Dental	Labor Percentage	80%	27,759	9,179	5,799	22,207	7,343	4,639
Insurance - Life	None							
Insurance - Property Building	Facility Percentage	80%						
Other Exp. Machine #1201	Actual Cost		5,184	0	0	4,147	0	0
Lic/Permits/Tags: Machine #1201	Actual Cost		2,933	0	0	2,833	0	0
R&M: Machine #1201	Actual Cost		4,930	0	0	4,830	0	0
Fuel & Oil: Machine #1201	Actual Cost		7,074	16	0	7,074	16	0
Other Exp. Machine #504	Actual Cost		9,516	0	0	6,516	0	0
Lic/Permits/Tags: Machine #504	Actual Cost		3,944	0	0	3,944	0	0
Losses	Actual Cost		3,030	323	0	3,030	323	0
R&M: Machine #504	Actual Cost		24,059	14,308	10,135	14,541	10,408	7,111
Fuel & Oil: Machine #504	Actual Cost		3,154	0	0	3,154	0	0
Licenses & Permits	Actual Cost		8,696	0	0	8,696	0	0
Meals & Entertainment	Actual Cost		11,733	1,428	11,354	11,733	1,428	11,354
Dental Expense	Actual Cost		0	398	0	0	398	0
Medical Expenses	Actual Cost		0	7,023	12,492	0	7,023	12,492
Miscellaneous	None							
Shop Expenses	Actual Cost		241,681	671	2,328	241,681	671	2,328
Office Equip./Computers	Percent for Shop Office	15%	16,268	3,429	10,256	2,440	514	1,540
Office Exp. & Supplies	Percent for Shop Office	15%	73,392	24,770	20,439	11,084	3,716	3,066
Payroll Service Fees	Labor Percentage	80%	7,299	905	0	5,839	724	0
Pension Expense (SEE NOTE A)	Percent Salaries Allocated		183,563	55,000	55,000	157,681	48,420	48,595
Personnel Services	Labor Percentage	80%	0	27,089	82,728	0	61,671	68,182
Pest Control	Facility Percentage	80%	1,375	325	255	1,100	260	204
Postage & Box Rental	None							
Professional Fees - Other	Facility Percentage	0%	15,511	31,255	13,806	0	0	0
Professional Fees - Acct	Facility Percentage	0%	56,566	1,569	10,950	0	0	0
Professional Fees - Legal	Facility Percentage	0%	577,414	204,040	172,135	0	0	0
Professional Fees - Admin	None							
R&M - General	Facility Percentage	80%	21,177	693	5,144	16,942	554	4,115
R&M - Shop Equipment	Actual Cost		2,337	0	0	2,337	0	0
R&M - Computer & Equipment	None							
R&M - Fleet	Actual Cost		12,905	9,122	12,075	12,905	9,122	12,075
R&M - Grounds & Landscaping	Facility Percentage	50%	27,609	0	3,478	22,087	0	2,792
R&M - Office	None							
R&M - Plant	Actual Cost		9,764	150	0	9,764	150	0
Security	Facility Percentage	80%	1,718	2,119	427	1,374	1,695	342
Shipping & Supplies	None							
Storage	Actual Cost		9,600	2,400	2,400	9,600	0	0
Taxes - Payroll	Percent Salaries Allocated		369,046	145,587	162,563	309,280	123,213	143,545
Taxes - Real Estate	Facility Percentage	80%	20,146	0	0	16,117	0	0
Taxes - State	Facility Percentage	80%	46,741	3,305	476	37,393	2,644	381
Taxes - Sales	None							
Taxes - Other	Actual Cost		1,335	0	0	147	0	0
Telephone	Estimated Usage	30%	20,127	6,227	10,070	6,038	1,868	3,021
Tel. Cable	Estimated Usage	30%	17,516	2,415	0	5,255	725	0
Cell Phones	Estimated Usage	30%	21,025	9,366	3,005	8,308	2,810	902
Tradeshows	None							
Employment Costs	Labor Percentage	80%	6,765	3,395	3,564	5,412	2,717	2,851
Uniforms & Laundry	Actual Cost		24,264	7,572	10,080	24,264	7,572	10,080
Utilities	Facility Percentage	80%	31,470	42,131	30,213	65,176	33,705	24,170
Officers' Salaries	Estimated Time Usage	25%	165,937	39,231	47,940	41,747	9,608	11,955
Staff Salaries	Excludes G&A		2,950,053	562,555	1,751,770	2,643,371	751,765	1,595,351
Travel	None							
Airfare	None							
Auto Rental Parking Taxi Tolls	None							
Fuel & Oil	None							
Lodging	None							
M&E	None							
Mileage Reimbursement	None							
Other	None							
Depreciation	Actual Cost							

Total to be Allocated

\$ 1,395,608 \$ 1,472,490 \$ 2,001,534

Square Footage Percent (per VEO Controller)

30%

Labor Burden Percent (per VEO Controller)

30%

\$3,774,026

Percent of Salary Allocated

Total Salaries

Amount Allocated

Allocated

2005

1st Qtr. 2006

2nd Qtr. 2006

1,127,050

301,836

1,309,710

2,385,113

781,523

1,603,590

88.7%

84.4%

88.7%

NOTE: Per VEO Controller, annual pension expense for 2005 will approximate \$220,000, versus \$180,563 in 2005.
 The amounts not allocated until after year end. We utilized one-fourth \$55,000 per quarter.

EXHIBIT VII

Voyager Boilers
Schedule of Gross Profit Per Job

	443	444	445	504	515	Total
Total Contract Revenue	\$ 2,103,002	\$ 642,359	\$ 642,359	\$ 1,552,328	\$ 2,528,525	\$ 7,468,573
Less Cost of Goods Sold:						
Raw Materials	1,353,055	360,618	333,555	671,866	1,441,135	4,160,229
Direct Labor	178,860	63,681	67,823	120,307	110,699	541,370
Other Costs Directly Allocated to Jobs	135,345	25,758	22,515	25,055	73,733	282,406
Manufacturing Overhead Applied (Exhibit VIII)	363,793	134,719	139,676	248,621	256,219	1,143,028
Total Cost of Goods sold	<u>2,031,053</u>	<u>584,776</u>	<u>563,569</u>	<u>1,065,849</u>	<u>1,881,786</u>	<u>6,127,033</u>
Back Charges						
Gross Profit	<u>\$ 71,949</u>	<u>\$ 57,583</u>	<u>\$ 78,790</u>	<u>\$ 486,479</u>	<u>\$ 646,739</u>	<u>\$ 1,341,540</u>

EXHIBIT VIII

Voyager Boilers
Schedule of Manufacturing Overhead Applied per Job

2006 Overhead rate per Exhibit V	\$	39.85							
		<u>443</u>	<u>444</u>	<u>445</u>	<u>504</u>	<u>515</u>			
<u>2007/2007</u> Labor Hours		9,129.05	3,380.65	3,505.05	6,238.92	6,429.58			
Overhead Applied	\$	363,793	\$ 134,719	\$ 139,676	\$ 248,621	\$ 256,219			

Job No	Customer	Proposal Sell Price	P.O. Sell Price	Minimum Profit	Maximum Profit	Equipment
443	Abengoa Bio Energy	\$1,848,284	\$1,848,284	\$323,450	\$508,278	(2) VS-6-92, 150,000#/hr, 250psig Sat.
444	Sioux River Ethanol	\$642,359	\$642,359	\$112,413	\$176,649	(1) VS-4-68 85,000#/hr, 250psig, Sat.
445	Iowa Erhanol	\$642,359	\$642,359	\$112,413	\$176,649	(1) VS-4-68 85,000#/hr, 250psig, Sat.
446	Summit Ethanol	\$1,596,360	\$1,596,360	\$279,363	\$438,999	(2) VS-5-80 120,000 #/hr 250psig Sat.
490	Primier Ethanol	\$1,596,360	\$1,596,360	\$279,363	\$438,999	(2) VS-5-80 120,000 #/hr 250psig Sat.
502	Conestoga Energy	\$1,762,758	\$1,765,758	\$309,008	\$485,583	(1) VS-6-92 150,000#/hr 250psig Sat.
503	Conestoga Energy		\$3,096,000	\$541,800	\$851,400	(2) VS-6-92 150,000#/hr 250psig Sat.
504	Yuma Ethanol	\$1,552,320	\$1,552,328	\$271,657	\$426,890	(1) VS-5-106 120,000#/hr 500psig Sat.
508	Reo Technical	\$1,897,930	\$1,897,930	\$332,138	\$521,931	(3) VS-2-45 40,000#/hr 250psig Sat.
515	Penford Products	\$2,281,710	\$2,528,525	\$442,492	\$695,344	(2) VS-6-92 150,000#/hr 250psig Sat.
517	White Energy	\$3,185,400	\$3,185,400	\$557,445	\$875,985	(2) VS-6-92 150,000#/hr 250psig Sat.
528	Grest Plains Ethanol	\$1,927,077	\$1,927,077	\$337,238	\$529,946	(3) VS-4-68 85,000#/hr 250psig Sat.
540	Cilion Inc.	\$13,637,125	\$13,637,125	\$2,386,497	\$3,750,209	(11) VS-4-68 79,280#/hr 450psig SH
541	Hennepin Energy	\$3,694,382		\$646,517	\$1,015,955	(2) VS-7-116 205,000#/hr 250psig Sat.
542	Ultimate Ethanol	\$1,596,360	\$1,596,360	\$279,363	\$438,999	(2) VS-5-80 120,000 #/hr 250psig Sat.
558	Plainview Bio Energy	\$3,065,400	\$3,065,400	\$536,445	\$842,985	(2) VS-6-92 150,000#/hr 250psig Sat.
559	Kansas Ethanol	\$1,665,160	\$1,665,160	\$291,403	\$457,919	(1) VS-6-92 150,000#/hr 250psig Sat.
562	Northeast Bio	\$1,983,045	\$1,983,045	\$347,033	\$545,337	(2) VS-5-80 120,000 #/hr 250psig Sat.
576	Temple University	\$2,049,079	\$2,035,055	\$356,135	\$559,640	(3) VS-4-68 75,000#/hr 250psig Sat.
Total				\$8,742,172	\$13,737,698	

INDECK KEYSTONE ENERGY LLC vs. VICTORY ENERGY OPERATIONS LLC

Voyager Series Profit Review

We have summarized in the attached table VEO Proposal and the Customer's Purchase Order selling prices. We have also included the expected range of profit that should be realized.

A 17.5 % profit margin was used for the minimum expected profit. This was the profit realized on the two profitable contracts that have been completed and shipped.

A 27.5% profit margin was used as the Maximum expected profit. This was obtained from the average profit realized from the Keystone Boilers that were built during the term of the License Agreement between IKE and VEO.

Based on these values, the expected profit on these nineteen contracts should be somewhere between \$8,742,172 and \$13,737,698. It would be expected that the profits on these contracts should increase as VEO gains experience in manufacturing the Voyager Series package boiler.